AGRICULTURAL OUTLOOK DIGEST

AOD-181

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THE WHEAT SCENE

A year ago, people were scratching their heads over what to do with a mountain of wheat, as a record 1971 crop pushed the U.S. wheat supply to the highest level in 9 years. Output reached 1.64 billion bushels from 48.5 million acres harvested.

There was also a prospective decline in total use for 1971/72. A dock strike materialized last fall, helping reduce exports from the 1970/71 level. Domestic use rose smartly, due to a surge in wheat feeding when wheat prices became more competitive with feed grain prices. Still, the record output outweighted total use, and as predicted, the carryover of wheat on July 1 was nearly a fifth above a year earlier.

To keep the supply from mounting further, farmers were encouraged to grow less wheat in 1972. In the summer of 1971, required set-aside acreage was boosted. Then, after

(Continued on p. 2)

FEED USE AT TOP LEVEL

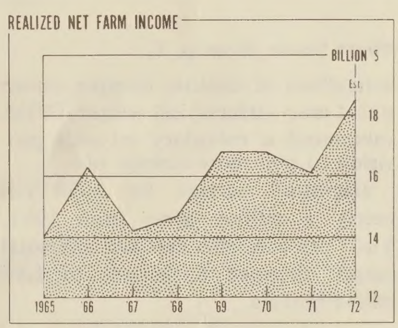
The feed grain supply approximates last fall, but rising domestic needs and booming exports will push feed grain use to new heights in the 1972/73 season.

On the supply side, September indications of a smaller crop but larger carryover, compared with the fall of 1971, suggest a 1972/73 supply of 237 million tons, a little less than last fall's record.

(Continued on p. 2)

FARM INCOME ESTIMATE HIKED

Farm income prospects have brightened considerably with the dynamic export situation developing over the past several months for grains and soybeans. The sharp runup in wheat prices and the more buoyant situation for soybeans and feed grains have caused an upward revision of $1½ billion in estimated crop receipts to farmers for calendar 1972. Only partly offsetting will be a reduction of some $75 million in wheat program payments, reflecting the increasing prices of wheat.



Accordingly, realized gross farm income this year will probably rise more than $5 billion from 1971, and realized net farm income may increase around $2½ billion from last year's total of $16.1 billion. See table on page 3.

GOOD TIMES FOR SOYBEAN FARMERS

Farmers are producing a tenth more soybeans this year, but they will get higher prices because of continued strong demand. Soybeans from the 1971 crop brought a season-average $3 a bushel, the highest price since 1947. The average may rise 5 to 10 percent this season.

Disappearance has exceeded output in each of the past 3 marketing years, leaving beginning stocks this fall at 72 million bushels, the least in 6 years. With total use this season likely to rise around 7 percent, carryover next fall will remain small.

Demand centers on exports. Strong world protein demand and the USSR's recent entry into the U.S. market for an estimated 40 million bushels of beans imply that our exports this season could rise to near half-a-billion bushels, up from the 413 million bushels of 1971/72. Meanwhile, the domestic crush may be little different from the 722 million bushels of last season. Livestock feeders will keep meal demand brisk, but soybean oil stocks are large and movement is slow, and processing margins are small.

OCTOBER HIGHLIGHTS

TURNAROUND FOR HOG SLAUGHTER

Since December 1971, commercial hog slaughter has been running about 9 percent below year-earlier levels.

Market hogs on farms on September 1 that will provide most of fall slaughter were off by 5 percent, while there were slightly more than a year ago for winter slaughter.

Looking farther down the road, spring slaughter may also be up, because the number of sows farrowing during September-November is estimated to be up 2 percent.

Slaughter by the second half of next year will surpass year-earlier rates by a wide margin.

The number of sows farrowing during December 1972-February 1973 is forecast to run about 7 percent larger than a year earlier. Hog prices have been high this year and feed prices relatively low. Fall hog prices will continue higher than last year with barrows and gilts at 7 markets likely to average $3-5 above last October-December's $20 average. First-half 1973 hog prices may stay at high levels, approximating the $25 average of first-half 1972.

Feed Grains, from p. 1.

As for utilization, domestic use in the year ahead is projected to gain about 2-3 percent over the 164 million tons of 1971/72, because of more grain-consuming animal units, particularly cattle, and less wheat feeding. In addition feeding rates will probably hold near 1971/72's high levels.

Exports are projected to increase 5 to 10 percent above the 27 million tons of 1971/72. Supporting the favorable export outlook are large sales to the USSR (reportedly up to 7 million metric tons of corn since July), continued strong European and Japanese import demand, and tight exportable feed supplies outside the United States. The export total also will hinge on the size of 1973 feed grain crops in Argentina and South Africa, which compete with U.S. exports during the spring and summer.

Disappearance of feed grains, domestic and export, may total about 196 million tons, exceeding September's indicated production and resulting in a decline in carryover at the end of 1972/73. However, supplies are ample relative to projected domestic use, exports, and carryover needs.

Feed grain farm prices will average stronger than in 1971/72. Corn and sorghum prices this fall will be considerably above the low levels of a year ago, when record crops were harvested.

Feed Grain Flow

Marketing year[1]	Supply: Carry-over	Supply: Output, imports	Supply: Total supply	Distribution: Feed, food, seed use	Distribution: Exports	Distribution: Total use
			Million tons			
1970[2]	48.4	159.0	207.4	153.7	20.7	174.4
1971[3]	33.0	205.8	238.8	163.9	26.9	190.8
1972[3]	48.0	189.4	237.4	167.9	28.5	196.4
1973[3]	41.0					
			Corn			
			Million bushels			
1970[2]	999	4,103	5,102	3,922	517	4,439
1971[3]	663	5,541	6,204	4,319	785	5,104
1972[3]	1,100	5,125	6,225	4,425	875	5,300
1973[3]	925					

[1] Begins Oct. 1 for corn and sorghum, July 1 for oats and barley. [2] Preliminary. [3] Prelminary; use, carryover based on September 1972 indications.

Wheat Scene, from p. 1.

indications of another bumper winter wheat crop surfaced last winter, USDA announced a voluntary set-aside provision to pull more acreage out.

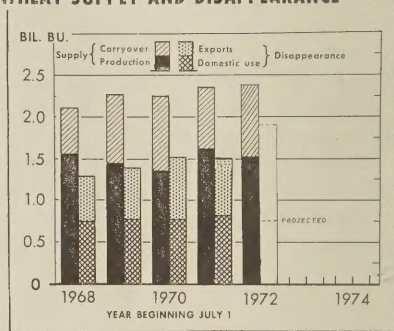
Harvested acreage for 1972 fell nearly a million acres from 1971. Yield per acre also declined and total output dropped 5 percent to 1.56 billion bushels.

Despite the reduced output, the larger carryover lifted the total wheat supply for 1972/73 to 2.43 billion bushels, a little above the previous year's burdensome amount.

Bigger Supply No Burden Now.

But what was considered burdensome a year ago is not that way any more, thanks to a flip-flop in export prospects. World import demand has picked up and exportable wheat supplies have tightened. And not only have our regular commercial customers been buying more wheat, but the Soviet Union—following initiation of trade discussions last spring with the U.S. Government—also has bought heavily.

WHEAT SUPPLY AND DISAPPEARANCE



Russia's purchases of U.S. wheat may total around 400 million bushels for 1972/73, much more than had been anticipated when the first sales were announced in July. Recent purchase of 15 million bushels by the Peoples Republic of China accentuates this year's turn in export events.

These developments have raised U.S. wheat export prospects for 1972/73 to a whopping 1.12 billion bushels, double the 632 million of last season. The rise in total use will be less dramatic, increasing perhaps 385 million bushels. Domestic use this season may fall because of less extensive wheat feeding, reflecting rising wheat prices relative to feed grain prices.

Total use will nonetheless exceed the 1972 crop and drop next summer's carryover by about 330 million bushels from the 865 million of last July 1. It could be the lowest volume since 1967.

Because of the export developments, wheat prices have risen sharply and are running much higher this fall than last, when farmers were being encouraged to cut back on acreage.

Economic Research Service
U.S. Department of Agriculture
Washington, D.C. 20250

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E R R A T A

The following change should be made in Agricultural Outlook Digest, AOD-181, October 1972, published by the Economic Research Service:

> The second sentence in the story entitled, "Farm Income Estimate Hiked," on page 1 should read: "...have caused an upward revision of $½ billion in estimated crop receipts...," instead of $1½ billion.

TOBACCO PREFERENCES

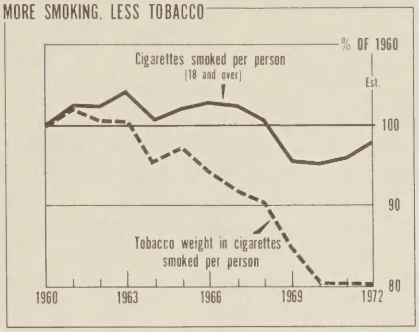
While reinforcing their preference for cigarettes, smokers are lighting up more little cigars and cigarillos, and even trying chewing tobacco. Big cigars and smoking tobacco, though, are in a slump.

Smoking costs more. A pack of cigarettes cost 6 percent more at mid-1972 than a year before, mostly reflecting higher State taxes. Cigars and cigarillos averaged 4 percent higher, their first price-hike in a decade. And the price of smoking tobacco has edged up a little, following a major rise in 1971. Of course, smokers have more money to spend; their income gains this year have outstripped all these increases.

So people are smoking more. Cigarette use jumped 4 percent for the first half of 1972 and might hold on for the second half, providing a 3-percent boost for the entire year. A further gain may occur next year. Cigarette use per capita drifted down for 4 years but rallied 2 percent in 1971 to 202 packs per smoking-age adult.

Bunker Beware

Archie Bunker, beware—the cigar's image is being challenged by the compact and sub-compact models. Little cigars, smaller than cigarillos and sized and priced in the cigarette range, may double sales over last year's 1.1 billion. Sales of cigars, including cigarillos, are trailing 1971 by 5 percent.



U.S. pipe smoking has dropped off. Although imported pipe tobaccos have increased their share of U.S. pipe tobacco sales to 15 percent, domestic brands are declining for 1972.

Chewing tobacco and snuff are doing all right. While chewers are content with less cut plug and twist, output of fine-cut chew is up and loose-leaf output is the biggest in 22 years.

Snuff is holding its own. Increased output of moist snuff has offset a decline for the dry type.

U.S. cigarette output this year is up 4 percent, exports are up 5 percent, and exports of bulk smoking tobacco for overseas plants or licensees of American firms could be up a tenth.

Skimpier Cigarettes

Last year, the gradual decline in tobacco content of the American cigarette continued. This trend will be abetted by growing use of tobacco that has been "puffed" by a process that makes it bulkier.

The effect is particularly discomforting to American tobacco growers, whose leaf now must make room in the typical cigarette for about 15 percent foreign-produced tobacco. Record tobacco prices, assured by restricted output, enhance manufacturers' incentive to buy foreign leaf and to use cheaper tobacco sheet made from tobacco stems and scraps.

There's another specter on the horizon, synthetic tobacco substitutes. But, despite considerable research abroad, the chances of even partial substitution of synthetic ingredients seem distant. Many synthetics are high in tar, low in taste, and their use might raise numerous health and regulatory questions.

RECORD RICE DEMAND AND PRICE

Near-record exports and higher producer prices are in store for 1972/73, continuing the favorable conditions of the last marketing year.

In 1971/72, exports surged a fifth to 57 million hundredweight, supplying sharply increased needs in Vietnam, South Korea, Pakistan, and Bangladesh. Domestic use of U.S. rice also was larger.

The season average price received by U.S. farmers advanced to $5.24 per hundredweight, 17 cents over loan. World prices also rose, as the supply situation tightened.

Signs are bullish for 1972/73. The crop for this year was forecast at 84½ million hundredweight on September 1, about the same as last year. But last season's heavy use slashed the carryover nearly 40 percent to 11.4 million hundredweight, which means the total 1972/73 supply could be down 5 percent from the prior season.

Meanwhile, export needs continue large. Crop conditions point to a decline in world rice production in 1972/73. World import demand in calendar year 1972 is expected to continue at a relatively high level. Accordingly, world rice prices have risen by a fourth since April.

Domestic use will edge up, and total rice disappearance may well top the 1972 crop, leaving the carryover next summer even smaller than this July 31.

The 1972 loan rate has moved up to $5.27, in line with parity requirements. But recent medium and long grain rough rice prices in Louisiana and Texas have hit $5.85 and better. Prices received by farmers for the 1972/73 season could top the new loan rate by 5 to 10 percent.

Components of farm income

	Marketing receipts	Government payments	Nonmoney income	Realized gross	Production expenses	Realized net
			Billion dollars			
1965	39.3	2.5	3.1	44.9	30.9	14.0
1966	43.3	3.3	3.2	49.7	33.4	16.3
1967	42.7	3.1	3.2	49.0	34.8	14.2
1968	44.1	3.5	3.3	50.9	36.2	14.7
1969	48.1	3.8	3.6	55.6	38.8	16.8
1970	50.5	3.7	3.7	57.9	41.1	16.8
1971	53.1	3.1	3.8	60.1	44.0	16.1

Data from *Farm Income Situation*, July 1972 (ERS).
Note: Details may not add to totals due to rounding.

EGGS PULLING UP

After a 2-year slump, farm egg prices are recovering as production eases. Production might have dropped faster this summer, had it not been for a faster than usual uptrend in the rate of lay. This fall and winter, continued culling and reduced replacements will hold production a little below year-earlier levels.

Farm egg prices began strengthening this summer and will continue strong through the end of 1972, but nonetheless for the year will average only a little above last year's 31 cents a dozen.

Containment

Egg producers have been trimming flock size for over a year. But egg output has been on the rise since 1969, and production this January-August held its own. But the egg flow fell below year-earlier levels last spring and has been slowing since.

The new factor has been a sharp step-up in output per layer. While this year's older flock with a higher percentage of forced-moults should have proven less productive, the rate of lay has done the opposite, breaking records each month.

Historically, the rate of lay has risen about 1 percent a year. But since the 1970 introduction of the vaccine for Marek's disease, the improvement pace has doubled to 2 percent. Eggs laid by inoculated hens are more likely to hatch and the vaccinated chicks to live to maturity. As hens, these birds in turn lay more eggs than their pre-vaccine predecessors.

This year's high meat prices have had their strengthening effect on broiler and turkey prices and on cheese sales and prices. Yet demand for table eggs, an alternate source of inexpensive protein, has declined.

Per capita consumption (fresh eggs and egg products) rose to 322 eggs last year but is probably dropping for 1972.

With weaker table egg demand, diversion to egg breakers has been heavy and stocks of egg products are building up. Egg prices through July held below a year earlier despite lagging output. But prices have strengthened since mid-August. Fall and winter prices are expected to run well above the depressed levels of a year earlier.

CHICKENS KEEP COMING

Record broiler meat output continues, but gains are slowing. With 6½ percent more broilers at 2 percent heavier weights reaching Federally inspected slaughter plants so far this year, and with sharply lower condemnations, the 7-month output of broiler meat was a record 4½ billion pounds, 9 percent larger than in January-July 1971.

Based on chick placements and egg settings, 2½ percent more broilers will be marketed this September-November than a year earlier. Larger broiler output will continue into next year, but at a more modest margin of gain.

Higher Prices

Broiler prices lagged in the spring but strengthened in the summer, moving above year-earlier levels during August. During September, the 9-city average wholesale price averaged 30 cents a pound.

Compared with last fall, pork supplies will be smaller, red meat prices higher, and personal incomes up sharply, all favoring demand for broilers. Prices this fall will make their seasonal decline but are likely to average above the 25 cents of October-December 1971, even with record marketings.

SIMILAR TURKEY MARKET

The fall turkey market, paralleling the market for broilers, is likely to maintain prices while absorbing record output. Turkey meat production was up 12 percent in January-July and prices declined into summer. Cold storage stocks at first were limited by brisk sales, but recently have begun to accumulate in preparation for the holiday season.

March-June poult hatchings point to 6 percent more birds than last year for fall marketings. Even so, prices are expected to recover seasonally during the peak marketing months of September-December, and may reach 1971 levels before year-end. New York wholesale prices for U.S. Grade A young toms, 14-20 pounds, averaged 34.8 cents last fall.

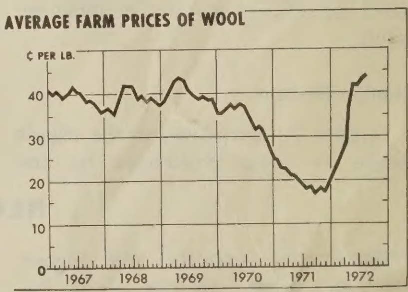
For all of 1972, turkey output is forecast at nearly 128½ million birds, representing a 7-percent increase for heavy breeds to 114 million and a 9-percent rise in light breeds.

WOOL PRICES FIRM

The price received by producers for shorn wool this year may almost double the Depression-level 19.4 cents a pound, grease basis, received last year. Prospects are for prices to continue firm the remainder of 1972.

World market prices are up sharply, and mill use of wool at home and abroad is expected to stay brisk. Also, U.S. wool production is down again.

Recovery has highlighted farm prices of shorn wool since spring. Domestic supplies have trailed stepped-up mill demand. Commitments made last year and early this year to export raw wool have had to be fulfilled, and sharp improvement in world markets has boosted prices of imported wools.



Relatively large marketings during last winter and spring at prices well below recent levels will limit the year's overall gain in prices. This year's average price for shorn wool likely will be somewhat under the 1961-70 average of 45 cents a pound. Mid-September wool prices averaged 44 cents per pound.

U.S. mills have been processing 16 percent more raw apparel wool this year and consumption of apparel wool at worsted mills is up a fifth. Wool mill use of other fibers, including reprocessed and reused wool and man-made fibers, has totaled about the same as a year earlier.

Market trends affecting mill use of raw apparel wool likely will maintain apparel wool consumption during the rest of this year and into 1973.